



## Healthy Revenue Growth, Margins Miss; Maintain BUY

**Est. vs. Actual for Q1FY26:** Revenue – **BEAT**; EBITDA – **MISS**; PAT – **MISS**

**Changes in Estimates post Q1FY26**

**FY26E/FY27E:** Revenue: 0%/0%; EBITDA: -1%/-2%; PAT: -1%/-2%

### Recommendation Rationale

- **Healthy Topline Performance:** ITC reported a healthy 20.7% YoY revenue growth in Q1FY26, driven by broad-based performance across key segments. The Cigarette business grew 7.6% YoY, supported by resilient volumes and continued premiumisation. Agri Business surged 39% YoY on the back of robust trading activity and strong leaf tobacco exports. FMCG (ex-Notebooks) maintained solid growth at 8.6% YoY, led by Staples, Biscuits, Dairy, Premium Personal Wash, Homecare, and Agarbatti. The Paperboards, Paper & Packaging segment also rose 7% YoY, aided by higher volumes despite pricing pressures.
- **Gross Margins declined** by 750 bps YoY to 48.6%, impacted by a sharp escalation in key input costs, including edible oils, wheat, maida, cocoa, leaf tobacco, and pulpwood. Additionally, subdued realisations in the paper business further weighed on margins.
- **Demand Outlook:** As per the management, growth momentum is likely to strengthen, supported by moderating inflation, potential rate cuts, sustained RBI liquidity support, and fiscal thrust through tax relief and front-loaded government spending as outlined in the Union Budget. Macro fundamentals remain solid, with rural demand sustaining and early signs of recovery evident in urban markets.
- **Long-term Story Remains Strong:** We believe ITC's long-term growth trajectory remains intact, with nearly all segments progressing steadily. 1) Cigarette volumes continue to register growth, aided by innovations and ongoing premiumisation. 2) The Agribusiness remains resilient, underpinned by robust customer relationships and agile execution across leaf tobacco, coffee, and spices. 3) The FMCG segment has witnessed a pickup in demand momentum and is well-positioned for a recovery. Government budgetary measures, coupled with expanding outlet reach, localisation strategies, and premiumisation, are expected to support growth revival in the upcoming quarters.

### Sector Outlook: Positive

**Company Outlook & Guidance:** Considering the volatility in commodity prices, we have cut the margin estimates for FY26/FY27.

**Current Valuation:** 25x Mar'27 EPS (Earlier Valuation: 25x Mar'27 EPS).

**Current TP:** Rs 490/share (Earlier TP: Rs 500/share).

**Recommendation:** With an upside potential of 18% from the CMP, we **maintain our BUY** rating on the stock.

**Financial Performance:** ITC reported 20.7% YoY revenue growth, driven by strong performance in the Cigarette, Agri, and FMCG businesses. Gross margins contracted by 750 bps YoY to 48.6%, primarily due to higher raw material costs. EBITDA grew by 2.8% YoY, though margins declined by 554 bps YoY to 31.9%. The reported PAT stood at Rs 4,912 Cr, up ~2% YoY.

**Cigarettes (~80% of EBIT):** ITC's cigarette revenue growth was strong at 7.6% YoY, supported by resilient demand and a strategic focus on premiumisation. EBIT grew by 3.7% while EBIT margins declined by 225 bps YoY to 60.4% owing to higher RM (tobacco). However, this was partly offset by the improved mix and strategic cost savings.

**Outlook:** We believe ITC's long-term growth outlook remains intact. The stock is currently trading at 19.6x FY27E EPS, providing a margin of safety compared to peers.

### Key Financials (Standalone)

(Rs Cr)	Q1FY26	QoQ (%)	YoY (%)	Axis Est.	Variance (%)
Net Sales	19,602	15.2	20.7	17,713	10.7
EBITDA	6,261	4.6	2.9	6,599	-5.1
EBITDA Margin (%)	31.9	-323 bps	-554 bps	37.3	-531 bps
Net Profit	4,912	0.8	2.0	5,155	-4.7
EPS (Rs)	3.9	0.8	1.7	4.1	-4.7

Source: Company, Axis Research

(CMP as of 1<sup>st</sup> Aug, 2025)

CMP (Rs)	416
Upside /Downside (%)	18%
High/Low (Rs)	528/391
Market cap (Cr)	521681
Avg. daily vol. (6m) Shrs.'000	18059
No. of shares (Cr)	1252

### Shareholding (%)

	Dec-24	Mar-25	Jun-25
Promoter	0.0	0.0	0.0
FII	40.2	39.9	38.0
MFs / UTI	12.9	12.9	13.8
Banks / FI	7.9	7.9	7.9
Others	39.1	39.4	40.4

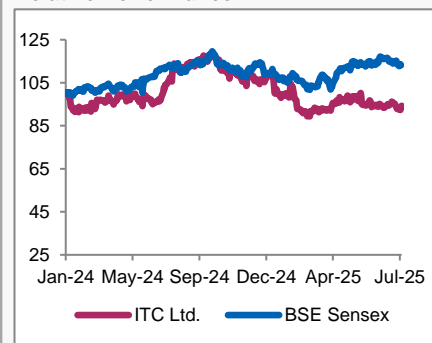
### Financial & Valuations

Y/E Mar (Rs Cr)	FY25	FY26E	FY27E
Net Sales	68,552	75,946	84,522
EBITDA	24,025	26,966	30,005
Net Profit	19,564	22,055	24,539
EPS (Rs.)	15.6	17.6	19.6
PER (x)	26.6	23.6	21.3
EV/EBITDA (x)	20.9	18.6	16.6
P/BV (x)	7.7	7.2	6.6
ROE (%)	28.8	30.5	30.9

### Change in Estimates (%)

Y/E Mar	FY26E	FY27E
Sales	0%	0%
EBITDA	-1%	-2%
PAT	-1%	-2%

### Relative Performance



Source: Ace Equity, Axis Securities

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## Other Key Highlights

### **Segment Performances**

- **Cigarette Business** – Net revenue rose 7.6% YoY, supported by strong traction in premium and differentiated offerings. The company strengthened its market position through focused efforts in competitive markets and measures to curb illicit trade. Margins were impacted by high-cost leaf inventory, though better mix and cost controls helped offset some of the pressure. The recent moderation in leaf tobacco prices and a stable tax regime continue to support volume growth across the industry.
- **FMCG (Others)** – Revenue grew 5.2% YoY (8.6% YoY ex-Notebooks), led by strong growth in Staples, Biscuits, Dairy, Premium Personal Wash, Homecare, and Agarbattis. Beverages were impacted by unseasonal rains, while Notebooks remained under pressure due to deflation and regional competition. The premium portfolio and NewGen channels continued to perform well. Segment EBITDA margin improved by 50 bps QoQ to 9.4%, driven by calibrated pricing actions, cost efficiencies, and premiumisation, despite elevated commodity costs. Strategic trade and marketing investments were maintained to strengthen brand presence.
- **Agri Business** – Revenue surged 39% YoY, backed by strong growth in agri commodity trading and robust leaf tobacco exports. Segment PBIT rose 22% YoY. The business leveraged an agile, tech-enabled sourcing network to capitalise on trading opportunities. Growth in leaf tobacco exports benefited from superior crop development and strong customer relationships. Exports of nicotine and derivatives continued to scale, supported by the Mysuru facility. The company is expanding its value-added agri portfolio in aqua, spices, and coffee. Wheat stock limits imposed by the government (Jun'25) indicate persistent food inflation risks due to global geopolitical and climatic factors.
- **Paperboards Business** – The segment delivered 7% YoY revenue growth, driven by volume expansion. However, profitability was impacted by high domestic wood costs and weak realisations amid low-priced import inflows. The Specialty Papers segment, especially Décor paper, posted strong growth following recent capacity additions. The company remains focused on optimising product mix, enhancing cost efficiency, and expanding plantations. Sustainable packaging solutions have scaled over 3x in the past four years. Policy advocacy continues to seek trade remedies to safeguard domestic industry competitiveness.
- **ITC-Food Tech Business** - ITC's FoodTech vertical, aligned with its "Next" strategy, is shaping into a meaningful growth driver by capitalising on the fast-growing online food services market. The business draws on ITC's core capabilities in food science, culinary expertise, and its trusted FMCG brand portfolio. Operating through a full-stack model, it has established ~60 cloud kitchens across five cities, delivering curated offerings under brands such as ITC Master Chef Creations, Aashirvaad Soul Creations, Sunfeast Baked Creations, and Sansho. The model remains capital-efficient and tech-driven, enabling operational scalability. The vertical crossed Rs 100 Cr in GMV in FY25 and is being steadily rolled out to new geographies, reinforcing ITC's omnichannel ambition.

### **Key Risks to Our Estimates and TP**

- Increased competitive intensity in Cigarettes, RM inflation, and the economic slowdown may impact Hotels and other cyclical businesses.

### Change in Estimates

	Old		New		% Change	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Revenue	75,946	84,522	75,946	84,522	0%	0%
EBITDA	27,284	30,703	26,966	30,005	-1%	-2%
PAT	22,303	25,079	22,055	24,539	-1%	-2%
EPS	18	20	17.6	19.6	-1%	-2%

Source: Company, Axis Securities

### Results Review

(Rs Cr)	Q1FY25	Q4FY25	Axis Sec Est.	Q1FY26	YoY growth %	QoQ growth %	Axis Sec Est. Var (%)
Volume growth est. (% YoY)	3.0	4.0	5.0	5.0	200 bps	100 bps	
<b>Net sales</b>	<b>16,237</b>	<b>17,020</b>	<b>17,713</b>	<b>19,602</b>	<b>20.72</b>	<b>15.17</b>	<b>10.7</b>
Other Operating Income	136	228	186	148	8.57	(35.04)	(20.4)
<b>Gross Profits</b>	<b>9,111</b>	<b>9,208</b>	<b>10,175</b>	<b>9,529</b>	<b>4.59</b>	<b>3.49</b>	<b>(6.3)</b>
<b>Gross Margin (%)</b>	<b>56.1</b>	<b>54.1</b>	<b>57.4</b>	<b>48.6</b>	<b>-750 bps</b>	<b>-549 bps</b>	<b>-883 bps</b>
Staff costs	864	869	1,098	915	6.00	5.30	(16.6)
Other operating expenses	2,297	2,580	2,644	2,501	8.87	(3.08)	(5.4)
<b>EBITDA</b>	<b>6,087</b>	<b>5,986</b>	<b>6,599</b>	<b>6,261</b>	<b>2.87</b>	<b>4.59</b>	<b>(5.1)</b>
<b>EBITDA margin (%)</b>	<b>37.5</b>	<b>35.2</b>	<b>37.3</b>	<b>31.9</b>	<b>-554 bps</b>	<b>-323 bps</b>	<b>-531 bps</b>
Other Income	699	795	736	662	(5.22)	(16.77)	(10.1)
Interest	(8)	(9)	9	(13)	55.22	51.94	(250.4)
Depreciation	(355)	(356)	360	(365)	2.80	2.48	(201.5)
PBT	6,422	6,417	6,967	6,545	1.92	2.00	(6.0)
Tax	(1,602)	(1,542)	1,811	(1,633)	1.94	5.88	(190.1)
Tax rate (%)	-24.9	-24.0	26.0	-24.9	0 bps	-91 bps	
<b>Reported PAT</b>	<b>4,817</b>	<b>4,875</b>	<b>5,155</b>	<b>4,912</b>	<b>1.98</b>	<b>0.77</b>	<b>(4.7)</b>
<b>Reported EPS</b>	<b>3.9</b>	<b>3.9</b>	<b>4.1</b>	<b>3.9</b>	<b>1.74</b>	<b>0.77</b>	<b>(4.7)</b>

Source: Company, Axis Securities

## Financials (Standalone)

### Profit & Loss

(Rs Cr)

Y/E Mar	FY24	FY25	FY26E	FY27E
<b>Net sales</b>	<b>61,993</b>	<b>68,552</b>	<b>75,946</b>	<b>84,522</b>
Growth, %	(5)	11	11	11
Other operating income	636	772	849	942
Total income	62,628	69,324	76,795	85,464
Raw material expenses	(26,726)	(31,736)	(34,909)	(38,749)
Employee expenses	(3,201)	(3,417)	(3,758)	(4,209)
Other Operating Expenses	(9,208)	(10,146)	(11,161)	(12,500)
<b>EBITDA (Core)</b>	<b>23,494</b>	<b>24,025</b>	<b>26,966</b>	<b>30,005</b>
Growth, %	(2)	2	12	11
Margin, %	38	35	36	35
Depreciation	(1,357)	(1,442)	(1,417)	(1,534)
<b>EBIT</b>	<b>22,137</b>	<b>22,583</b>	<b>25,549</b>	<b>28,471</b>
Growth, %	(1)	2	13	11
Margin, %	36	33	34	34
Interest paid	(34)	(36)	(37)	(37)
Other Income	3,530	3,454	3,800	4,180
Non-recurring Items	-	528	-	-
<b>Pre-tax profit</b>	<b>25,632</b>	<b>26,529</b>	<b>29,312</b>	<b>32,613</b>
Tax provided	(5,722)	(6,437)	(7,257)	(8,074)
<b>Profit after tax</b>	<b>19,910</b>	<b>20,092</b>	<b>22,055</b>	<b>24,539</b>
Others (Minorities, Associates)	-	-	-	-
Unadj. shares (Cr)	1,248	1,251	1,252	1,252
Wtd avg shares (Cr)	1,248	1,251	1,252	1,252

Source: Company, Axis Securities

### Balance Sheet

(Rs Cr)

As of 31 <sup>st</sup> March, 2025,	FY24	FY25	FY26E	FY27E
Cash & bank	6,218	3,184	4,991	9,155
Marketable securities at cost	11,917	15,286	15,286	15,286
Debtors	3,311	3,911	4,333	4,822
Inventory	12,632	15,061	16,685	18,570
Loans & advances	9	9	9	9
Other current assets	1,984	2,305	2,305	2,305
Total current assets	36,071	39,756	43,609	50,146
Investments	22,822	20,701	20,701	20,701
Gross fixed assets	37,304	30,774	33,374	35,974
Less: Depreciation	(11,561)	(10,786)	(12,203)	(13,737)
Add: Capital WIP	1,087	1,071	1,071	1,071
Net fixed assets	26,830	21,059	22,242	23,307
Non-current assets	1,605	2,493	2,493	2,493
<b>Total assets</b>	<b>87,328</b>	<b>84,009</b>	<b>89,045</b>	<b>96,647</b>
Current liabilities	11,656	12,094	12,584	13,151
Provisions	981	1,253	1,277	1,305
Total current liabilities	12,637	13,347	13,861	14,457
Non-current liabilities	2,457	2,762	2,762	2,762
Total liabilities	15,094	16,109	16,623	17,218
Paid-up capital	1,248	1,251	1,251	1,251
Reserves & surplus	70,985	66,649	71,171	78,178
Shareholders' equity	72,233	67,900	72,423	79,429
<b>Total equity &amp; liabilities</b>	<b>87,328</b>	<b>84,009</b>	<b>89,045</b>	<b>96,647</b>

Source: Company, Axis Securities

**Cash Flow**

(Rs Cr)

Y/E Mar	FY24	FY25	FY26E	FY27E
Pre-tax profit	25,632	26,529	29,312	32,613
Depreciation	1,357	1,442	1,417	1,534
Chg in working capital	280	(3,962)	(1,533)	(1,778)
Total tax paid	(5,275)	(5,697)	(7,257)	(8,074)
Other operating activities	-	-	-	-
<b>Cash flow from operating activities</b>	<b>21,994</b>	<b>18,313</b>	<b>21,940</b>	<b>24,296</b>
Capital expenditure	(2,317)	4,329	(2,600)	(2,600)
Chg in investments	(6,458)	2,121	-	-
Chg in marketable securities	4,440	(3,369)	-	-
Other investing activities	-	-	-	-
<b>Cash flow from investing activities</b>	<b>(4,335)</b>	<b>3,081</b>	<b>(2,600)</b>	<b>(2,600)</b>
Free cash flow	17,659	21,393	19,340	21,696
Equity raised/(repaid)	3,839	(17,581)	52,258	7,007
Debt raised/(repaid)	(2)	(2)	-	-
Dividend (incl. tax)	(17,163)	(17,163)	(17,533)	(17,533)
<b>Cash flow from financing activities</b>	<b>(13,325)</b>	<b>(34,746)</b>	<b>34,725</b>	<b>(10,526)</b>
Net chg in cash	4,333	(13,352)	54,065	11,170
Opening cash balance	3,831	6,218	3,184	4,991
Closing cash balance	6,218	3,184	4,991	9,155

Source: Company, Axis Securities

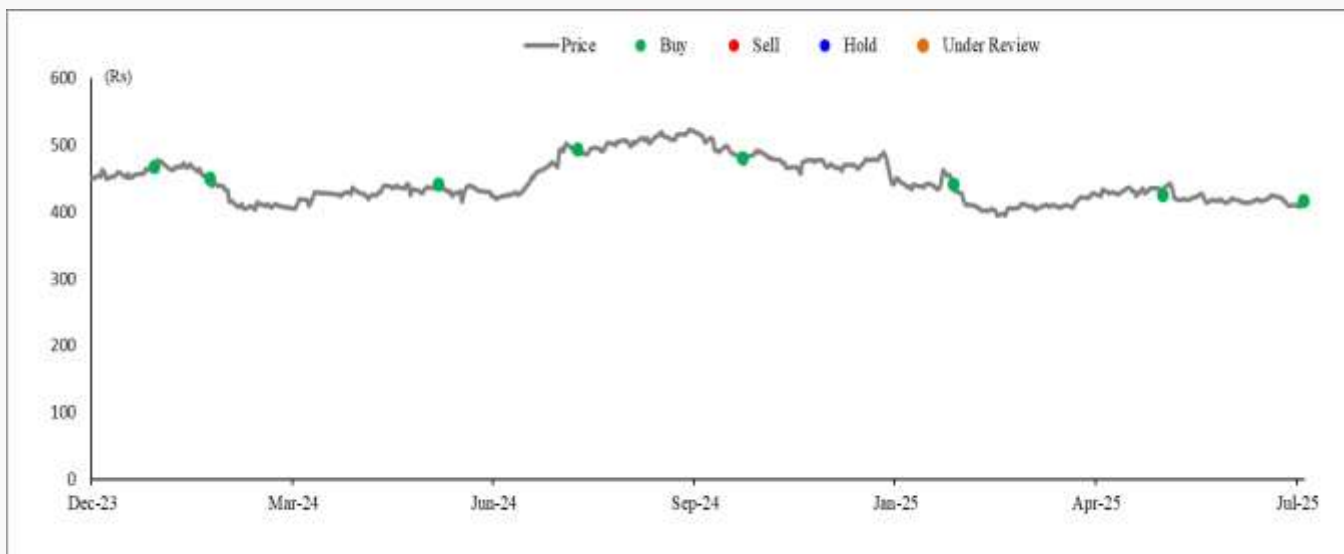
**Ratio Analysis**

(%)

	FY24	FY25	FY26E	FY27E
<b>Per Share data</b>				
EPS (INR)	15.9	15.6	17.6	19.6
Growth, %	6.1	(2.0)	12.7	11.3
Book NAV/share (INR)	57.9	54.3	57.8	63.4
FDEPS (INR)	15.9	15.6	17.6	19.6
CEPS (INR)	17.0	16.4	18.7	20.8
CFPS (INR)	12.2	12.6	14.5	16.1
DPS (INR)	13.7	13.7	14.0	14.0
<b>Return ratios</b>				
Return on assets (%)	23.5	23.5	25.5	26.5
Return on equity (%)	27.6	28.8	30.5	30.9
Return on capital employed (%)	27.6	27.6	30.2	31.1
<b>Turnover ratios</b>				
Asset turnover (x)	2.0	2.2	2.4	2.5
Sales/Total assets (x)	0.7	0.8	0.9	0.9
Sales/Net FA (x)	2.4	2.9	3.5	3.7
Working capital/Sales (x)	0.1	0.1	0.1	0.1
Receivable days	19.5	20.8	20.8	20.8
Inventory days	74.4	80.2	80.2	80.2
Payable days	41.9	36.2	36.4	36.4
Working capital days	32.5	43.5	46.7	49.8
<b>Liquidity ratios</b>				
Current ratio (x)	2.9	3.0	3.2	3.5
Quick ratio (x)	1.9	1.9	2.0	2.2
<b>Valuation</b>				
PER (x)	26.1	26.6	23.6	21.3
PEG (x) - y-o-y growth	4.3	(13.5)	1.9	1.9
Price/Book (x)	7.2	7.7	7.2	6.6
EV/Net sales (x)	8.1	7.3	6.6	5.9
EV/EBITDA (x)	21.4	20.9	18.6	16.6
EV/EBIT (x)	22.7	22.3	19.6	17.5

Source: Company, Axis Securities

## ITC Ltd Price Chart and Recommendation History



Date	Reco	TP	Research
01-Jan-24	BUY	540	Top Picks
30-Jan-24	BUY	500	Result Update
24-May-24	BUY	500	Result Update
02-Aug-24	BUY	550	Result Update
24-Oct-24	BUY	550	Result Update
07-Feb-25	BUY	510	Result Update
23-May-25	BUY	500	Result Update
04-Aug-25	BUY	490	Result Update

Source: Axis Securities

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<b>Ratings</b>	<b>Expected absolute returns over 12 – 18 months</b>
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.